

SIERRA JOINT COMMUNITY COLLEGE DISTRICT

Audit Report

HEALTH FEE ELIMINATION PROGRAM

Chapter 1, Statutes of 1984, 2nd Extraordinary
Session, and Chapter 1118, Statutes of 1987

July 1, 2004, through June 30, 2008



JOHN CHIANG
California State Controller

January 2012



JOHN CHIANG
California State Controller

January 19, 2012

Aaron Klein, President
Board of Trustees
Sierra Joint Community College District
5000 Rocklin Road
Rocklin, CA 95677

Dear Mr. Klein:

The State Controller's Office audited the costs claimed by Sierra Joint Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 2004, through June 30, 2008.

The district claimed \$1,157,114 (\$1,158,114 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$15,543 is allowable and \$1,141,571 is unallowable. The costs are unallowable because the district overstated salaries, benefits, and services and supplies; overstated indirect costs; understated authorized health service fees; and understated offsetting savings/reimbursements. The State paid the district \$419,033. The amount paid exceeds allowable costs claimed by \$403,490.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's Web site at www.csm.ca.gov/docs/IRCForm.pdf.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/bf

cc: William H. Duncan IV, Superintendent/President

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Sierra Joint Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 2004, through June 30, 2008.

The district claimed \$1,157,114 (\$1,158,114 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$15,543 is allowable and \$1,141,571 is unallowable. The costs are unallowable because the district overstated salaries, benefits, and services and supplies; overstated indirect costs; understated authorized health service fees; and understated offsetting savings/reimbursements. The State paid the district \$419,033. The amount paid exceeds allowable costs claimed by \$403,490.

Background

Chapter 1, Statutes of 1984, 2nd Extraordinary Session (E.S.) repealed Education Code section 72246, which authorized community college districts to charge a health fee for providing health supervision and services, providing medical and hospitalization services, and operating student health centers. This statute also required that health services for which a community college district charged a fee during fiscal year (FY) 1983-84 had to be maintained at that level in FY 1984-85 and every year thereafter. The provisions of this statute would automatically sunset on December 31, 1987, reinstating the community college districts' authority to charge a health service fee as specified.

Chapter 1118, Statutes of 1987, amended Education Code section 72246 (subsequently renumbered as section 76355 by Chapter 8, Statutes of 1993). The law requires any community college district that provided health services in FY 1986-87 to maintain health services at the level provided during that year for FY 1987-88 and for each fiscal year thereafter.

On November 20, 1986, the Commission on State Mandates (CSM) determined that Chapter 1, Statutes of 1984, 2nd Extraordinary Session imposed a "new program" upon community college districts by requiring specified community college districts that provided health services in FY 1983-84 to maintain health services at the level provided during that year for FY 1984-85 and for each fiscal year thereafter. This maintenance-of-effort requirement applied to all community college districts that levied a health service fee in FY 1983-84.

On April 27, 1989, the CSM determined that Chapter 1118, Statutes of 1987, amended this maintenance-of-effort requirement to apply to all community college districts that provided health services in FY 1986-87, requiring them to maintain that level in FY 1987-88 and for each fiscal year thereafter.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted parameters and guidelines on August 27, 1987, and amended them on May 25, 1989. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist school districts in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Health Fee Elimination Program for the period of July 1, 2004, through June 30, 2008.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

We asked the district's representative to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures as recommended by generally accepted government auditing standards. However, the district declined our request.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Sierra Joint Community College District claimed \$1,157,114 (\$1,158,114 less a \$1,000 penalty for filing a late claim) for costs of the Health Fee Elimination Program. Our audit disclosed that \$15,543 is allowable and \$1,141,571 is unallowable.

For the fiscal year (FY) 2004-05 and FY 2005-06 claims, the State made no payment to the district. Our audit disclosed that \$15,543 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2006-07 and FY 2007-08 claims, the State paid the district \$419,033. Our audit disclosed that the claimed costs are unallowable. The State will offset that amount from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

**Views of
Responsible
Official**

We issued a draft audit report on November 30, 2011. William H. Duncan IV, Superintendent/President, responded by letter dated December 21, 2011 (Attachment). The district disagreed with Finding 5 and had no objection to, or additional documentation to refute, the remaining findings. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of Sierra Joint Community College District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

January 19, 2012

Schedule 1— Summary of Program Costs July 1, 2004, through June 30, 2008

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Salaries and benefits	\$ 359,622	\$ 263,888	\$ (95,734)	Findings 1, 2
Services and supplies	96,676	86,990	(9,686)	Finding 3
Less cost of providing current fiscal year services in excess of FY 1986-87	(5,000)	(5,000)	-	
Total direct costs	451,298	345,878	(105,420)	
Indirect costs	184,581	121,957	(62,624)	Finding 5
Total direct and indirect costs	635,879	467,835	(168,044)	
Less authorized health service fees	(328,566)	(418,221)	(89,655)	Finding 7
Less offsetting savings/reimbursements	(39,834)	(33,071)	6,763	Finding 8
Less late filing penalty	(1,000)	(1,000)	-	
Total program costs	<u>\$ 266,479</u>	15,543	<u>\$ (250,936)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 15,543</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Salaries and benefits	\$ 410,756	\$ 296,836	\$ (113,920)	Findings 1, 2, 4
Services and supplies	113,162	88,626	(24,536)	Findings 3, 4
Less cost of providing current fiscal year services in excess of FY 1986-87	(5,000)	(5,000)	-	
Total direct costs	518,918	380,462	(138,456)	
Indirect costs	185,254	149,522	(35,732)	Finding 5
Total direct and indirect costs	704,172	529,984	(174,188)	
Less authorized health service fees	(463,688)	(530,023)	(66,335)	Finding 7
Less offsetting savings/reimbursements	(36,294)	(29,329)	6,965	Finding 8
Subtotal	204,190	(29,368)	(233,558)	
Audit adjustments that exceed costs claimed	-	29,368	29,368	
Total program costs	<u>\$ 204,190</u>	-	<u>\$ (204,190)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ -</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Salaries and benefits	\$ 506,368	\$ 414,000	\$ (92,368)	Findings 1, 2
Services and supplies	99,543	97,553	(1,990)	Finding 3
Total direct costs	605,911	511,553	(94,358)	
Indirect costs	233,215	178,276	(54,939)	Finding 5
Total direct and indirect costs	839,126	689,829	(149,297)	
Less authorized health service fees	(494,119)	(686,598)	(192,479)	Findings 6, 7
Less offsetting savings/reimbursements	-	(40,875)	(40,875)	Finding 8
Subtotal	345,007	(37,644)	(382,651)	
Audit adjustments that exceed costs claimed	-	37,644	37,644	
Total program costs	<u>\$ 345,007</u>	-	<u>\$ (345,007)</u>	
Less amount paid by the State		(129,817)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (129,817)</u>		
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Salaries and benefits	\$ 500,942	\$ 409,001	\$ (91,941)	Findings 1, 2
Services and supplies	56,375	65,333	8,958	Finding 3
Total direct costs	557,317	474,334	(82,983)	
Indirect costs	210,833	160,001	(50,832)	Finding 5
Total direct and indirect costs	768,150	634,335	(133,815)	
Less authorized health service fees	(426,712)	(769,177)	(342,465)	Findings 6, 7
Less offsetting savings/reimbursements	-	(32,237)	(32,237)	Finding 8
Subtotal	341,438	(167,079)	(508,517)	
Audit adjustments that exceed costs claimed	-	167,079	167,079	
Total program costs	<u>\$ 341,438</u>	-	<u>\$ (341,438)</u>	
Less amount paid by the State		(289,216)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (289,216)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 2004, through June 30, 2008</u>				
Direct costs:				
Salaries and benefits	\$ 1,777,688	\$ 1,383,725	\$ (393,963)	
Services and supplies	365,756	338,502	(27,254)	
Less cost of providing current fiscal year services in excess of FY 1986-87	(10,000)	(10,000)	-	
Total direct costs	2,133,444	1,712,227	(421,217)	
Indirect costs	813,883	609,756	(204,127)	
Total direct and indirect costs	2,947,327	2,321,983	(625,344)	
Less authorized health service fees	(1,713,085)	(2,404,019)	(690,934)	
Less offsetting savings/reimbursements	(76,128)	(135,512)	(59,384)	
Less late filing penalty	(1,000)	(1,000)	-	
Subtotal	1,157,114	(218,548)	(1,375,662)	
Audit adjustments that exceed costs claimed	-	234,091	234,091	
Total program costs	<u>\$ 1,157,114</u>	15,543	<u>\$ (1,141,571)</u>	
Less amount paid by the State		(419,033)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (403,490)</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unallowable salaries and benefits

The district claimed unallowable salaries and benefits totaling \$8,254.

The district did not provide documentation to support salaries and related benefits totaling \$21,704 that it identified in its Subfund No. 14.

The district understated fiscal year (FY) 2007-08 costs by \$13,450. The district did not claim mandate-related costs that it identified in its Subfund No. 2.

The following table summarizes the audit adjustment:

	Sub-fund	Fiscal Year				Total
		2004-05	2005-06	2006-07	2007-08	
Salaries and benefits:						
Unsupported	14	\$ (14,526)	\$ (3,595)	\$ (3,583)	\$ -	\$ (21,704)
Understated	2	-	-	-	13,450	13,450
Audit adjustment		<u>\$ (14,526)</u>	<u>\$ (3,595)</u>	<u>\$ (3,583)</u>	<u>\$ 13,450</u>	<u>\$ (8,254)</u>

The program's parameters and guidelines state:

Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities.

For salaries and benefits specifically, the parameters and guidelines direct claimants to:

Identify the employee(s), show the classification of the employee(s) involved, describe the mandated functions performed and specify the actual number of hours devoted to each function, the productive hourly rate, and the related benefits. The average number of hours devoted to each function may be claimed if supported by a documented time study.

Recommendation

We recommend that the district maintain documentation that supports all mandate-related salaries and benefits claimed. We also recommend that the district claim all mandate-related costs that its accounting records support.

District's Response

The district had no additional documentation for unsupported costs. In addition, the district had no objection to the audit adjustment for understated costs.

SCO's Comment

The finding and recommendation are unchanged.

**FINDING 2—
Unsupported
counseling costs**

The district claimed unallowable counseling-related salaries and benefits totaling \$352,572. For the audit period, the district claimed 5% of all counselors' salaries and benefits. However, the district did not provide documentation supporting the 5% allocation.

During our audit fieldwork, the district asked to perform a time study to identify actual mandate-related counseling costs. On June 2, 2010, June 11, 2010, and August 4, 2010, we requested that the district submit its time study plan to us before starting its time study. The district scheduled its time study for September and October 2010, but did not submit its time study plan to the SCO until September 3, 2010.

The district's time study plan indicated that all 19 full-time general fund counselors would participate in the time study. However, the district submitted time study documentation for only 7 of the 19 counselors. Of the seven counselors who completed the time study, six also performed counseling activities during the audit period. The following table summarizes the district's time study results:

	Mandate- Related Hours Worked	Total Hours Worked	Percentage of Mandate- Related Time
Counselor No. 1	7.08	128	5.53%
Counselor No. 2*	6.25	248	2.52%
Counselor No. 3	30.00	312	9.62%
Counselor No. 4	9.25	312	2.96%
Counselor No. 5	6.00	312	1.92%
Counselor No. 6	2.50	312	0.80%
Counselor No. 7	3.08	208	1.48%

*This counselor did not perform counseling activities during the audit period.

Because the district did not complete the time study in accordance with its time study plan, we did not allow the district to prorate the time study results to total counseling costs. However, we allowed costs attributable to those counselors who both participated in the time study and performed counseling activities during the audit period. We calculated allowable costs by applying each counselor's time study percentage to his or her annual salary cost during the audit period.

The following table summarizes the allowable counseling costs and the resulting audit adjustment:

	Fiscal Year				Total
	2004-05	2005-06	2006-07	2007-08	
Counselor No. 1:					
Salaries and benefits	\$ -	\$ -	\$105,218	\$ 92,960	
Percentage of mandate-related time	x 5.53%	x 5.53%	x 5.53%	x 5.53%	
Allowable salaries and benefits, Counselor No. 1	-	-	5,819	5,141	
Counselor No. 3:					
Salaries and benefits	-	-	106,948	123,622	
Percentage of mandate-related time	x 9.62%	x 9.62%	x 9.62%	x 9.62%	
Allowable salaries and benefits, Counselor No. 3	-	-	10,289	11,892	

	Fiscal Year				Total
	2004-05	2005-06	2006-07	2007-08	
Counselor No. 4:					
Salaries and benefits	109,970	126,276	136,420	154,496	
Percentage of mandate-related time	x 2.96%	x 2.96%	x 2.96%	x 2.96%	
Allowable salaries and benefits, Counselor No. 4	3,255	3,738	4,038	4,573	
Counselor No. 5:					
Salaries and benefits	89,278	67,226	-	74,174	
Percentage of mandate-related time	x 1.92%	x 1.92%	x 1.92%	x 1.92%	
Allowable salaries and benefits, Counselor No. 5	1,715	1,291	-	1,424	
Counselor No. 6:					
Salaries and benefits	76,404	81,619	89,733	104,268	
Percentage of mandate-related time	x 0.80%	x 0.80%	x 0.80%	x 0.80%	
Allowable salaries and benefits, Counselor No. 6	611	653	718	834	
Counselor No. 7:					
Salaries and benefits	74,955	81,166	99,287	109,301	
Percentage of mandate-related time	x 1.48%	x 1.48%	x 1.48%	x 1.48%	
Allowable salaries and benefits, Counselor No. 7	1,110	1,202	1,469	1,618	
Total allowable counseling-related salaries and benefits	6,691	6,884	22,333	25,482	\$ 61,390
Less claimed counseling-related salaries and benefits	(87,899)	(84,072)	(111,118)	(130,873)	(413,962)
Audit adjustment, salaries and benefits	<u>\$(81,208)</u>	<u>\$(77,188)</u>	<u>\$ (88,785)</u>	<u>\$(105,391)</u>	<u>\$ (352,572)</u>

The parameters and guidelines state:

Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities.

For salaries and benefits specifically, the parameters and guidelines direct claimants to:

Identify the employee(s), show the classification of the employee(s) involved, describe the mandated functions performed and specify the actual number of hours devoted to each function, the productive hourly rate, and the related benefits. *The average number of hours devoted to each function may be claimed if supported by a documented time study [emphasis added].*

Recommendation

Mandate-related counseling is not a task that is repetitive in nature. As a result, a time study of less than one year does not reasonably show the validity of claimed costs. Therefore, we recommend that the district maintain actual time records to support all mandate-related counseling activities for FY 2011-12. We previously advised the district of this recommendation on February 22, 2011.

After FY 2011-12, the district may apply the time study results for two subsequent fiscal years, provided there are no significant changes in

either (1) the requirements of the mandated program activity; or (2) the process and procedure used to accomplish the activity. Alternatively, the district may continue to maintain actual time records that support all mandate-related counseling activities in subsequent fiscal years.

District's Response

The district concurred that its time study was incomplete. The district had no additional documentation to support claimed costs.

SCO's Comment

The finding and recommendation are unchanged.

FINDING 3— Unallowable services and supplies

The district claimed unallowable services and supplies totaling \$16,486.

The district did not provide adequate documentation to support claimed costs totaling \$26,539. The district did not provide invoice documentation validating the amount claimed and that the claimed costs were mandate-related.

The district understated or overstated student insurance costs for each fiscal year. For the audit period, the district understated student insurance costs by \$10,053. The district provided documentation from its insurance company that identified mandate-related costs for each fiscal year.

The following table summarizes the audit adjustment for unallowable services and supplies:

	Fiscal Year				Total
	2004-05	2005-06	2006-07	2007-08	
Unsupported services and supplies	\$ (9,921)	\$ (12,118)	\$ (1,969)	\$ (2,531)	\$ (26,539)
Understated student insurance	235	(1,650)	(21)	11,489	10,053
Audit adjustment	<u>\$ (9,686)</u>	<u>\$ (13,768)</u>	<u>\$ (1,990)</u>	<u>\$ 8,958</u>	<u>\$ (16,486)</u>

The parameters and guidelines state:

Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheet, invoices, and receipts.

For services and supplies specifically, the parameters and guidelines state:

Only expenditures which can be identified as a direct cost of the mandate can be claimed. List cost of materials which have been consumed or expended specifically for the purpose of this mandate.

Recommendation

We recommend that the district claim only those services and supplies supported by its accounting records and source documents.

District's Response

The district had no additional documentation for unsupported costs. In addition, the district had no objection to the audit adjustment for understated costs.

SCO's Comment

The finding and recommendation are unchanged.

**FINDING 4—
Duplicate direct costs
claimed**

The district claimed duplicate costs totaling \$43,905 in FY 2005-06. The duplicate claimed costs are attributable to the district's Nevada County campus.

The following table summarizes the audit adjustment:

<u>Cost Elements</u>	<u>Fiscal Year 2005-06</u>
Salaries and benefits	\$ 33,137
Services and supplies	10,768
Audit adjustment	<u>\$ 43,905</u>

The parameters and guidelines state:

Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities.

Recommendation

We recommend that the district claim only those costs supported by its accounting records and source documents.

District's Response

The district concurred with the audit adjustment.

SCO's Comment

The finding and recommendation are unchanged.

**FINDING 5—
Unallowable indirect
costs**

The district claimed unallowable indirect costs totaling \$204,127.

The district claimed indirect costs based on indirect cost rates that it prepared using the FAM-29C methodology allowed by the parameters and guidelines and the SCO's claiming instructions. However, the district did not allocate direct and indirect costs as specified in the claiming instructions. The district also did not include depreciation in its calculation. In addition, the district calculated its indirect cost rates based on actual costs from the preceding fiscal year, even though current fiscal year data was available. The district prepared its CCFS-311 Annual Financial and Budget Report, and published its annual audit reports, well before the mandated claim due date for each fiscal year.

We calculated each fiscal year's allowable indirect cost rate using the SCO's FAM-29C methodology and the corresponding CCFS-311. The SCO's claiming instructions identify a different direct cost base during the audit period. For FY 2004-05, FY 2005-06, and FY 2006-07, we calculated the rates using a base of total direct costs and applied the allowable rates to allowable direct costs. For FY 2007-08, we calculated the rate using a base of direct salaries and benefits and applied the allowable rate to allowable salaries and benefits.

The following table summarizes the audit adjustment:

	Fiscal Year				Total
	2004-05	2005-06	2006-07	2007-08	
Allowable direct costs	\$ 345,878	\$ 380,462	\$ 511,553	\$ -	
Allowable salaries and benefits	-	-	-	409,001	
Allowable indirect cost rate	× 35.26%	× 39.3%	× 34.85%	× 39.12%	
Allowable indirect costs	121,957	149,522	178,276	160,001	
Indirect costs claimed	(184,581)	(185,254)	(233,215)	(210,833)	
Audit adjustment	\$ (62,624)	\$ (35,732)	\$ (54,939)	\$ (50,832)	\$(204,127)

The parameters and guidelines state:

“Indirect costs may be claimed in the manner described by the State Controller in his claiming instructions.”

For FY 2004-05, FY 2005-06, and FY 2006-07, the SCO's claiming instructions state:

A CCD [community college district] may claim indirect costs using the Controller's methodology (FAM-29C). . . . The FAM-29C methodology uses a direct cost base comprised of salary and benefit costs and operating expenses. . . .

For FY 2007-08 forward, the SCO's claiming instructions state:

A CCD [community college district] may claim indirect costs using the Controller's methodology (FAM-29C). . . . The methodology used in form FAM-29C is a direct cost base comprised of salary and benefit costs. . . .

Recommendation

We recommend that the district claim indirect costs using indirect cost rates calculated and applied in accordance with the SCO's FAM-29C methodology specified in the SCO's claiming instructions.

District's Response

The district objected to the audit finding. The district had the following comments:

Both the District and the auditor used the Controller's FAM 29C methodology. . . .

The [rate] variances result from four choices of method. The first difference is that the District indirect cost rate was calculated for all fiscal years based on the *prior year* CCFS-311. This the same reporting source used by the Controller, except that the Controller uses the *current* year 311. The audit report asserts that the current year CCFS-311 is readily available at time of claim preparation, which may not always be true, but more significantly, the current year audited district depreciation expense is rarely available at time of claim preparation, which is an integral part of the rate calculation. The District's use of prior year data is consistent over the years, avoids the need to file late claims, and yields reasonable and representative rates.

Second, is the utilization of CCFS-311 capital costs rather than audited financial statement depreciation. The District used CCFS-311 capital costs for the calculation of the rate for FY 2004-05. As a result of a change of policy by the Controller, the audit finding utilizes current year audited financial statement depreciation expense beginning FY 2004-05 (retroactively in this audit), in lieu of CCFS-311 capital costs. This is the annual claim with the greatest variance for the audited indirect cost rate. Based on the due date for the FY 2004-05 annual claims and the date of notice for the change in the Controller's method, the District was in compliance with the parameters and guidelines.

Third, being subsequently on notice of the policy change, for FY 2005-06, 2006-07, and 2007-08, the District used all CCFS-311 [*sic*] costs except capital costs and the added financial statement depreciation, which follows the Controller's method. Because the District used prior period data, the District rate was slightly different from the audited rate.

Fourth . . . the District applied the indirect cost rate to all direct costs. As a result of a change of policy by the Controller, the audit applies the indirect cost rate to salaries and benefits only, beginning FY 2007-08 (retroactively in this audit).

All of these differences result from a choice of methods. There is nothing in the parameters and guidelines regarding this choice of methods. The parameters and guidelines for the Health Fee Elimination Program (as amended on May 25, 1989), which are the legally enforceable standards for claiming costs, state that: "Indirect costs *may be claimed* in the manner described by the Controller in his claiming instructions" (emphasis added). Therefore, the parameters and guidelines *do not require* that indirect costs be claimed in the manner described by the Controller. The only statutory basis to adjust mandate costs is whether the claimed costs are excessive or unreasonable, pursuant to Government Code Section 17561(d)(2). . . .

SCO's Comment

The finding and recommendation are unchanged. The district states that it used the SCO's FAM-29C methodology to calculate indirect cost rates. We disagree. Although the district used the FAM-29C template, the district failed to acknowledge that it did not allocate direct and indirect costs according to the SCO's claiming instructions. In addition, we disagree with the district's general reference to a "choice of methods." The parameters and guidelines and the SCO's claiming instructions specify one allowable indirect cost rate calculation for Health Fee Elimination Program claims, which is the SCO's FAM-29C methodology. Our comments on the remainder of the district's response are as follows:

Costs from Prior Year CCFS-311 and Annual Audit Report

The district erroneously prepared its indirect cost rates using actual costs from prior fiscal years. The district states that it "may not always be true" that the current year CCFS-311 is readily available when the district prepares its claim. The district provided no evidence to support this statement. Mandated costs claims were due to the State on the following dates:

<u>Fiscal Year</u>	<u>Claim Due Date</u>
2004-05	April 26, 2006
2005-06	January 15, 2007
2006-07	February 15, 2008
2007-08	June 22, 2009

Meanwhile, for each fiscal year, Title 5, *California Code of Regulations* (CCR), section 58305, subdivision (d), states, "On or before the 10th day of October, each district shall submit a copy of its adopted annual financial and budget report [CCFS-311] to the Chancellor." Therefore, the district is required to complete its CCFS-311 well before mandated cost claims are due the State. The following table identifies the dates on which the district submitted its CCFS-311, showing that the current-year CCFS-311 was available well before the applicable claim due date:

<u>Fiscal Year</u>	<u>Date CCFS-311 Submitted</u>
FY 2004-05	October 12, 2005
FY 2005-06	October 16, 2006
FY 2006-07	October 15, 2007
FY 2007-08	October 7, 2008

The district also states, "the current year audited district depreciation expense is *rarely* [emphasis added] available at time of claim preparation." The "time of claim preparation" is a vague term; the mandated claim due dates are specified above. Meanwhile, for each fiscal year, Title 5, CCR, section 59106, requires the district to file its annual audit report with the California Community Colleges Chancellor's Office (CCCCO) "not later than December 31st."

The following table identifies the dates of the district's annual audit report, showing that the depreciation expense information was available well before the applicable claim due date:

<u>Fiscal Year</u>	<u>Report Date</u>
2004-05	October 27, 2005
2005-06	October 27, 2006
2006-07	November 13, 2007
2007-08	November 11, 2008

Government Code section 17560, the parameters and guidelines, and the SCO's claiming instructions require the district to report actual costs. An indirect cost rate that is calculated from a prior year's costs does not represent actual costs of the current fiscal year.

CCFS-311 Capital Costs Versus Depreciation Expense

The district states, "the audit finding utilizes current year audited financial statement depreciation expense beginning FY 2004-05 (retroactively in this audit), *in lieu of CCFS-311 capital costs* [emphasis added]." The district infers that the SCO's FAM-29C methodology previously allowed CCFS-311 capital costs. The inference is inaccurate; the FAM-29C methodology has never identified capital costs as an allowable indirect cost expense. Excluding capital costs from indirect cost rate calculations is consistent with federal policy promulgated by Title 2, *Code of Federal Regulations*, Part 220 (Office of Management and Budget Circular A-21, Appendix A, Section J, subdivision (18)(b)(5)).

In addition, the district implies that the SCO "retroactively" applied provisions of the FY 2004-05 claiming instructions to calculate the allowable indirect cost rate. We disagree. The SCO issued FY 2004-05 claiming instructions applicable to community college districts on December 27, 2005. The FY 2004-05 claiming instructions included revisions to the SCO's FAM-29C indirect cost calculation. Therefore, pursuant to Government Code section 17560, subdivision (b), the district's FY 2004-05 mandated cost claims were due the SCO on April 26, 2006. The district had time to calculate its FY 2004-05 indirect cost rates according to the SCO's claiming instructions.

The district also states, "Based on the due date for the FY 2004-05 annual claim and the date of notice for the change in the Controller's method, the District was in compliance with the parameters and guidelines." We disagree. The parameters and guidelines require the district to claim indirect costs according to the SCO's claiming instructions. As discussed above, the SCO's claiming instructions have never identified capital costs as an allowable indirect cost expense. Therefore, the district was not in compliance with the parameters and guidelines.

FY 2007-08 Indirect Cost Rate

The district calculated its FY 2007-08 indirect cost rate using total direct costs as a base. The district calculated the claimed indirect costs by applying its indirect cost rate to mandate-related direct costs. We calculated the allowable indirect cost rate according to the SCO's claiming instructions applicable to FY 2007-08. The claiming instructions advise districts to calculate indirect cost rates using a base of direct salaries and benefits only. We applied the allowable indirect cost rate to allowable salaries and benefits. The district did not specify why it believes that our calculation is incorrect. However, the district again implies that we applied the claiming instructions "retroactively." We disagree. The SCO issued FY 2007-08 claiming instructions applicable to community college districts on February 20, 2009. The FY 2007-08 claiming instructions included revisions to the SCO's FAM-29C indirect cost calculation. Therefore, pursuant to Government Code section 17560, subdivision (b), the district's FY 2007-08 mandated cost claim was due to the SCO on June 22, 2009. The district had time to calculate its FY 2007-08 indirect cost rates according to the SCO's claiming instructions.

Parameters and Guidelines

The district asserts that the parameters and guidelines do not require it to claim indirect costs according to the SCO's claiming instructions. The district did not cite any authoritative criteria that supports its indirect cost rate calculation. We disagree with the district's interpretation of the parameters and guidelines. The phrase "may be claimed" permits the district to claim indirect costs. However, if the district chooses to claim indirect costs, then the parameters and guidelines require that it comply with the SCO's claiming instructions.

Audit Authority

The district asserts, "the only statutory basis to adjust mandate costs is whether the claimed costs are excessive or unreasonable, pursuant to Government Code Section 17561(d)(2)." We disagree. Government Code section 17561, subdivision (d)(2), allows the SCO to audit the district's records to verify actual mandate-related costs *and* reduce any claim that the SCO determines is excessive or unreasonable. In addition, Government Code section 12410 states, "The Controller shall audit *all* claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment."

The SCO did conclude that the district's claims were excessive. Excessive is defined as "Exceeding what is usual, *proper*, *necessary*, [emphasis added] or normal."¹ The district's FY 2004-05, FY 2005-06, and FY 2007-08 indirect cost rates exceeded the proper amount based on the audited indirect cost rates that the SCO calculated according to the claiming instructions.

Further, pursuant to Government Code section 12410, we concluded that the district's claims were neither correct nor legal. Correct is defined as "Conforming to an approved or conventional standard."² Legal is defined as "Conforming to or permitted by law or established rules."³ The district calculated indirect cost rates and claimed indirect costs that did not conform to the established rules promulgated by the SCO's claiming instructions.

¹ Merriam-Webster's Collegiate Dictionary, Tenth Edition © 2001.

² Ibid.

³ Ibid.

**FINDING 6—
Offsetting savings/
reimbursements
incorrectly reported as
authorized health
service fees**

The district incorrectly reported offsetting savings/reimbursements totaling \$73,112 as authorized health service fees. The offsetting savings/reimbursements include revenue received for medications, clinical lab services, vaccinations, athletic physicals, other student charges, other local revenue, and private income. We identified those revenues as understated offsetting savings/reimbursements in Finding 8.

The following table summarizes the audit adjustment and the adjusted authorized health service fees claimed:

	Object Code	Fiscal Year		Total
		2006-07	2007-08	
Sierra College:				
Medications	8869	\$ -	\$ 20	
Clinical lab	8871	14,658	9,064	
Vaccinations	8873	9,151	7,337	
Athletic physicals	8875	2,060	1,880	
Other student charges	8878	4,665	3,783	
Other local revenue	8890	6,485	5,254	
Private income	8891	184	268	
Audit adjustment, Sierra College		<u>37,203</u>	<u>27,606</u>	
Nevada County Campus:				
Clinical lab	8871	1,357	1,213	
Vaccinations	8873	1,276	954	
Athletic physicals	8875	20	125	
Other student charges	8878	-	10	
Other local revenue	8890	1,019	2,329	
Audit adjustment, Nevada County Campus		<u>3,672</u>	<u>4,631</u>	
Total audit adjustment		40,875	32,237	<u>\$ 73,112</u>
Authorized health service fees claimed		<u>(494,119)</u>	<u>(426,712)</u>	
Adjusted authorized health service fees claimed		<u><u>\$(453,244)</u></u>	<u><u>\$ (394,475)</u></u>	

The parameters and guidelines state:

Any offsetting savings the claimant experiences as a direct result of this statute must be deducted from the costs claimed. In addition, reimbursement for this mandate received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.

The SCO's claiming instructions direct claimants to separately report authorized health service fees and other reimbursements.

Recommendation

We recommend that the district properly claim revenue as offsetting savings/reimbursements when the revenue is unrelated to the authorized student health fee.

District's Response

. . . This is only a reclassification adjustment. Both the health service fees and clinical services income reduce the claimable total program cost. The District reported actual revenues received without regard to the source. The audit differentiates these sources. There is no effect to the claimable program cost by this reclassification.

SCO's Comment

The finding and recommendation are unchanged. The district did not provide any additional documentation to refute the audit finding. The district states that there is "no effect to the claimable program cost." We believe that this statement is misleading because of the manner in which the district claimed authorized health service fees. Without identifying and reclassifying other offsetting savings/reimbursements, the total allowable offsetting revenue (authorized health service fees and offsetting savings/reimbursements) would be less.

**FINDING 7—
Understated authorized
health service fees**

The district understated authorized health service fees by \$764,046. The district understated these fees because it reported actual receipts rather than authorized fees. We noted that the district did not charge all students the full authorized fee amount for the 2005 summer session and fall semester, the 2006 fall semester, and the 2007 summer session and fall semester. For each school term, the district also waived or reduced the health fee for various specified students.

Mandated costs do not include costs that are reimbursable from authorized fees. Government Code section 17514 states that “costs mandated by the state” means any increased costs that a school district is *required* to incur. To the extent community college districts can charge a fee, they are not *required* to incur a cost. In addition, Government Code section 17556 states that the Commission on State Mandates shall not find costs mandated by the State if the school district has the authority to levy fees to pay for the mandated program or increased level of service.

For the period July 1, 2004, through December 31, 2005, Education Code section 76355, subdivision (c), states that health fees are authorized for all students except those who: (1) depend exclusively on prayer for healing; (2) are attending a community college under an approved apprenticeship training program; or (3) demonstrate financial need. Effective January 1, 2006, only Education Code section 76355, subdivisions (c)(1) and (2) are applicable.

The CCCCCO identified the fees authorized by Education Code section 76355, subdivision (a). The following table summarizes the authorized fees:

Fiscal Year	Authorized Health Fee Rate	
	Fall and Spring Semesters	Summer Session
2004-05	\$13	\$10
2005-06	\$14	\$11
2006-07	\$15	\$12
2007-08	\$16	\$13

For each school term, the district reports student enrollment, Board of Governors Grant (BOGG) recipient, and apprenticeship program enrollee data to the CCCCCO. Based on student data that the district reported, the CCCCCO identified enrollment and BOGG recipient data from its management information system (MIS). CCCCCO identified the district’s enrollment based on CCCCCO’s MIS data element STD7, codes A through G. CCCCCO eliminated any duplicate students based on their Social Security numbers. From the district enrollment, CCCCCO identified the number of BOGG recipients based on MIS data element SF21, all codes with first letter of B or F. CCCCCO also identified the number of apprenticeship program enrollees based on its data element SB23, code 1. CCCCCO data element and code definitions are available at <http://www.cccco.edu/SystemOffice/Divisions/TechResearchInfo/MIS/DED/tabid/266/Default.aspx>. The district identified two students that it excluded from the health service fee pursuant to Education Code section 76355, subdivision (c)(1).

The following table shows the authorized health service fee calculation and audit adjustment:

	Summer Session	Fall Semester	Spring Semester	Total
Fiscal Year 2004-05:				
Number of enrolled students	6,968	18,886	19,531	
Less number of BOGG recipients	(1,594)	(5,030)	(5,347)	
Less number of apprenticeship program enrollees	-	(3)	-	
Subtotal	5,374	13,853	14,184	
Authorized health fee rate	× \$(10)	× \$(13)	× \$(13)	
Authorized health service fees	\$ (53,740)	\$ (180,089)	\$ (184,392)	\$(418,221)
Less authorized health service fees claimed				328,566
Audit adjustment, FY 2004-05				(89,655)
Fiscal Year 2005-06:				
Number of enrolled students	7,536	19,603	19,071	
Less number of BOGG recipients	(1,921)	(5,227)	-	
Subtotal	5,615	14,376	19,071	
Authorized health fee rate	× \$(11)	× \$(14)	× \$(14)	
Authorized health service fees	\$ (61,765)	\$ (201,264)	\$ (266,994)	(530,023)
Less authorized health service fees claimed				463,688
Audit adjustment, FY 2005-06				(66,335)
Fiscal Year 2006-07:				
Number of enrolled students	7,784	19,909	19,637	
Authorized health fee rate	× \$(12)	× \$(15)	× \$(15)	
Authorized health service fees	\$ (93,408)	\$ (298,635)	\$ (294,555)	(686,598)
Less adjusted authorized health service fees claimed (Finding 6)				453,244
Audit adjustment, FY 2006-07				(233,354)
Fiscal Year 2007-08:				
Number of enrolled students	8,157	20,827	20,622	
Less number of apprenticeship program enrollees	-	-	(1)	
Less number of students who depend on prayer for healing	-	(1)	(1)	
Subtotal	8,157	20,826	20,620	
Authorized health fee rate	× \$(13)	× \$(16)	× \$(16)	
Authorized health service fees	\$ (106,041)	\$ (333,216)	\$ (329,920)	(769,177)
Less adjusted authorized health service fees claimed (Finding 6)				394,475
Audit adjustment, FY 2007-08				(374,702)
Total audit adjustment				\$(764,046)

Recommendation

We recommend that the district:

- Deduct authorized health service fees from mandate-related costs claimed. To properly calculate authorized health service fees, we recommend that the district identify the number of enrolled students based on CCCCO data element STD7, codes A through G.
- Identify the number of apprenticeship program enrollees based on data elements SB23, code 1, and STD7, codes A through G.
- Eliminate duplicate entries for students who attend more than one college within the district.

- Maintain documentation that identifies the number of students excluded from the health service fee based on Education Code section 76355, subdivision (c)(1).
- Charge students the authorized fee amount for each school term.
- Waive the health service fee only for those students specified in Education Code section 76355, subdivision (c).

District's Response

...the *Clovis* Appellate Court decision in September 2010... determined that it was and is appropriate for the Controller to calculate the collectible student health service fees by imputing the highest fee chargeable to all nonexempt students, full or part time, and at all instruction locations, without regard to the scope of services actually available at remote locations. The District does not dispute this finding of law and will comply in future annual claims. ... on October 27, 2011, the Commission on State Mandates ... determined that, in the absence of claimant evidence to the contrary, the Chancellor's MIS data is the preferred source of enrollment statistics. The District has no such evidence. This District does not dispute this administrative law finding and will comply in future annual claims.

SCO's Comment

The finding and recommendation are unchanged.

FINDING 8— Understated offsetting savings/reimbursements

The district overstated and understated offsetting savings/reimbursements for each fiscal year. For the audit period, the district understated offsetting savings/reimbursements by \$59,384.

The following table summarizes the audit adjustment:

	Fiscal Year				Total
	2004-05	2005-06	2006-07	2007-08	
Overstated offsetting savings/ reimbursements - vaccinations	\$ 6,763	\$ 6,965	\$ -	\$ -	\$ 13,728
Understated offsetting savings/reimbursements	-	-	(40,875)	(32,237)	(73,112)
Audit adjustment	<u>\$ 6,763</u>	<u>\$ 6,965</u>	<u>\$ (40,875)</u>	<u>\$ (32,237)</u>	<u>\$ (59,384)</u>

For the audit period, the district provided vaccination services that exceeded services that it provided in FY 1986-87 (the "base year"). In its FY 2004-05 and FY 2005-06 claims, the district reduced direct costs claimed by \$5,000 for costs attributable to current year services that exceeded base year services. The direct cost reduction also resulted in a corresponding reduction to indirect costs claimed. The district stated that the reduction was attributable to vaccination expenses.

However, the district also reported offsetting savings/reimbursements that included revenue attributable to vaccination services. Because the district reduced direct and indirect costs attributable to vaccination

services, only revenue that exceeds the reduction is reportable on the district's mandated cost claim.

As a result, the district overstated offsetting savings/reimbursements by \$13,728. The following table summarizes the audit adjustment for FY 2004-05 and FY 2005-06:

	Fiscal Year		Total
	2004-05	2005-06	
Direct costs - vaccinations	\$ 5,000	\$ 5,000	
Allowable indirect cost rate (Finding 5)	× 35.26%	× 39.30%	
Indirect costs - vaccinations	1,763	1,965	
Direct costs - vaccinations	5,000	5,000	
Total direct and indirect costs - vaccinations	6,763	6,965	
Total offsetting savings/reimbursements - vaccinations	(8,457)	(7,245)	
Allowable offsetting savings/reimbursements - vaccinations	(1,694)	(280)	
Less claimed offsetting savings/reimbursements - vaccinations	(8,457)	(7,245)	
Audit adjustment	\$ 6,763	\$ 6,965	\$ 13,728

For FY 2006-07 and FY 2007-08, the district did not report offsetting savings/reimbursements that its accounting records identified. In addition, the district did not reduce direct and indirect costs claimed for costs attributable to vaccination services that exceeded base year services.

The district's records identify revenue received for medications, clinical lab services, vaccinations, athletic physicals, other student charges, other local revenues, and private income. The district understated offsetting savings/reimbursements totaling \$73,112.

The following table summarizes the audit adjustment for FY 2006-07 and FY 2007-08:

	Object Code	Fiscal Year		Total
		2006-07	2007-08	
Sierra College:				
Medications	8869	\$ -	\$ (20)	\$ (20)
Clinical lab	8871	(14,658)	(9,064)	(23,722)
Vaccinations	8873	(9,151)	(7,337)	(16,488)
Athletic physicals	8875	(2,060)	(1,880)	(3,940)
Other student charges	8878	(4,665)	(3,783)	(8,448)
Other local revenue	8890	(6,485)	(5,254)	(11,739)
Private income	8891	(184)	(268)	(452)
Audit adjustment, Sierra College		(37,203)	(27,606)	(64,809)
Nevada County Campus:				
Clinical lab	8871	(1,357)	(1,213)	(2,570)
Vaccinations	8873	(1,276)	(954)	(2,230)
Athletic physicals	8875	(20)	(125)	(145)
Other student charges	8878	-	(10)	(10)
Other local revenue	8890	(1,019)	(2,329)	(3,348)
Audit adjustment, Nevada County Campus		(3,672)	(4,631)	(8,303)
Total audit adjustment		\$ (40,875)	\$ (32,237)	\$ (73,112)

The parameters and guidelines state:

Any offsetting savings the claimant experiences as a direct result of this statute must be deducted from the costs claimed. In addition, reimbursement for this mandate received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.

Recommendation

We recommend that the district report all offsetting savings/reimbursements on its mandated cost claims.

District's Response

The district did not object to the audit adjustment.

SCO's Comment

The finding and recommendation are unchanged.

OTHER ISSUES

The district's response included other comments related to the mandated cost claims. The district's comments and SCO's responses are presented below.

**Management
Representation Letter**District's Response

The District will not be providing the requested management representation letter since it could be construed as a waiver of future appeal rights.

SCO's Comment

Our findings and recommendations are unchanged. The district provided no evidence to support its interpretation of the requested management representation letter. We modified our audit report to disclose that the district declined to provide the written representation letter that is recommended by generally accepted government auditing standards. We recommend that the district's independent auditor take this into consideration when conducting the district's annual single audit.

**Public Records
Request**District's Response

The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings in effect and applicable during the claiming period to Finding 5 (indirect cost rate calculation standards).

SCO's Comment

The SCO responded to the district's request by separate letter dated December 28, 2011.

**Attachment—
District's Response to
Draft Audit Report**



Delivered Via E-mail to Jim Spano, Hardcopy Mailed

December 21, 2011

Mr. Jim L. Spano, Chief
Mandated Cost Audits Bureau
Division of Audits
California State Controller
P.O. Box 942850
Sacramento, CA 94250-5874

Re: Health Fee Elimination Program
Annual Claim Fiscal Years: 2004-05 through 2007-08
Sierra Joint Community College District

Dear Mr. Spano:

This letter is the response of the Sierra Joint Community College District to the draft audit report dated November 30, 2011, for the above-referenced mandate program and fiscal years, transmitted by the letter from Jeffrey V. Brownfield, Chief, Division of Audits, State Controller's Office.

Finding 1 - Unallowable salaries and benefits

The draft audit report eliminates unallowable salaries and benefits in the amount of \$8,254. From Subfund No. 14, this adjustment disallows unsupported salary and benefit costs totaling \$21,704 for the audit period. The District has no additional documentation to provide in response to this adjustment.

This finding also added understated allowable salary and benefit costs for Subfund 02 totaling \$13,450 for FY 2007-08. The District has no objection to this correction.

Finding 2 - Unsupported counseling costs

The draft audit report eliminates as unallowable counseling salaries and benefits in the amount of \$352,572. For each annual claim, the District claimed 5% of the total academic counseling costs based on a historical good-faith

the total academic counseling costs based on a historical good-faith representation of the time spent on "student needs" (mental health) counseling which is a reimbursable student health services program activity. The total amount claimed was \$413,962. The audit allowed \$61,390 based on the limited results of a District time study performed during September and October 2010. The allowed amount is an extrapolation of the time reported by 6 of the 19 counselors. The District concurs that the time study was incomplete for the remaining counselors. The District has no additional documentation to provide in response to this adjustment.

Finding 3 - Unallowable services and supplies

The draft audit report eliminates as unallowable services and supplies costs totaling \$16,486. This amount comprises a \$26,539 decrease in supply costs due to lack of supporting documentation. The district has no additional documentation to respond to this adjustment. The second amount is a \$10,053 increase in student health insurance costs based on the audited proration of the entire insurance premium. The District has no objection to this correction.

Finding 4 - Duplicate direct costs claimed

The draft audit report eliminates for FY 2005-06 the amount of \$43,905, which is the direct cost of the student health services program at the Nevada County learning center. In FY 2005-06, the District had separate general ledger reports for each location, as well as combined reports, which were misconstrued when the claim was prepared. The District agrees with this correction.

Finding 5 - Unallowable indirect costs

The draft audit report concludes that the District overstated indirect costs by \$204,127 for the four fiscal years included in the audit. Both the District and the auditor used the Controller's FAM 29C methodology. The summary below of the claimed and audited rates indicate that the differences are minor.

<u>Fiscal Year</u> <u>Claim</u>	<u>Reported</u> <u>Rate</u>	<u>Audited</u> <u>Rate</u>	<u>Difference</u>
FY 2004-05	40.90%	35.26%	<5.64%>
FY 2005-06	35.70%	39.30%	3.60%
FY 2006-07	38.49%	34.85%	<3.64%>
FY 2007-08	37.83%	39.12%	1.29%

The variances result from four choices of method. The first difference is that the District indirect cost rate was calculated for all fiscal years based on the *prior* year CCFS-311. This is the same reporting source used by the Controller, except that the Controller uses the *current* year 311. The audit report asserts

that the current year CCFS-311 is readily available at time of claim preparation, which may not always be true, but more significantly, the current year audited district depreciation expense is rarely available at time of claim preparation, which is an integral part of the rate calculation. The District's use of prior year data is consistent over the years, avoids the need to file late claims, and yields reasonable and representative rates.

Second, is the utilization of CCFS-311 capital costs rather than audited financial statement depreciation. The District used CCFS-311 capital costs for the calculation of the rate for FY 2004-05. As a result of a change of policy by the Controller, the audit finding utilizes current year audited financial statement depreciation expense beginning FY 2004-05 (retroactively in this audit), in lieu of CCFS-311 capital costs. This is the annual claim with the greatest variance for the audited indirect cost rate. Based on the due date for the FY 2004-05 annual claim and the date of notice for the change in the Controller's method, the District was in compliance with the parameters and guidelines.

Third, being subsequently on notice of the policy change, for FY 2005-06, 2006-07 and 2007-08, the District used all CCFS-311 costs except capital costs and the added financial statement depreciation, which follows the Controller's method. Because the District used prior period data, the District rate was slightly different from the audited rate.

Fourth, and the largest source for the dollar amount of the applied indirect cost, the District applied the indirect cost rate to all direct costs. As a result of a change of policy by the Controller, the audit applies the indirect cost rate to salaries and benefits only, beginning FY 2007-08 (retroactively in this audit).

All of these differences result from a choice of methods. There is nothing in the parameters and guidelines regarding this choice of methods. The parameters and guidelines for the Health Fee Elimination program (as amended on May 25, 1989), which are the legally enforceable standards for claiming costs, state that: "Indirect costs *may be claimed* in the manner described by the Controller in his claiming instructions" (emphasis added). Therefore, the parameters and guidelines *do not require* that indirect costs be claimed in the manner described by the Controller. The only statutory basis to adjust mandate costs is whether the claimed costs are excessive or unreasonable, pursuant to Government Code Section 17561(d)(2). The District utilized the Controller's FAM-29C method and changes to that method when it had effective notice of those changes.

The District continues to object to this Finding. The District also understands that this is an issue of statewide interest and is the subject of many incorrect reduction claims pending before the Commission on State Mandates. The District will comply prospectively with the decision of Commission on this issue when the Commission makes its determination.

Finding 6 - Offsetting savings/reimbursement incorrectly reported as authorized health service fees

The draft audit states that the District incorrectly reported a total of \$73,112 in clinical services and other local income as "authorized health service fees." This is only a reclassification adjustment. Both the health service fees and clinical services income reduce the claimable total program cost. The District reported actual revenues received without regard to the source. The audit differentiates these sources. There is no effect to the claimable program cost by this reclassification.

Finding 7 - Understated authorized health service fees

The draft audit report states that "authorized" student health service fee revenues were understated by \$764,046 for all four years in the audit period. This adjustment is due to the fact that the District reported the actual student health service fees collected rather than "authorized" student health service fees that could have been collected. As a matter of board policy, the District did not charge all students the highest collectible fee amount and charged lower amounts for students located at the several learning centers.

This legal issue of actual revenue versus collectible fees persists from prior District audits. It was the subject of an ongoing statewide dispute. However, the *Clovis* Appellate Court decision in September 2010 (after the annual claims which are the subject of this audit were filed) determined that it was and is appropriate for the Controller to calculate the collectible student health service fees by imputing the highest fee chargeable to all nonexempt students, full or part time, and at all instruction locations, without regard to the scope of services actually available at remote locations. This District does not dispute this finding of law and will comply in future annual claims.

The other source of the adjustment was the factual matter of the student enrollment statistics. The Controller utilized the Chancellor's Office MIS data. This issue was also the subject of an ongoing statewide dispute. However, on October 27, 2011, the Commission on State Mandates decided seven Health Fee Elimination incorrect reduction claims which included this issue and determined that, in the absence of claimant evidence to the contrary, the Chancellor's MIS data is the preferred source of enrollment statistics. The District has no such evidence. This District does not dispute this administrative law finding and will comply in future annual claims.

Finding 8 - Understated offsetting savings/reimbursement

The draft audit report states that the District understated offsetting savings and reimbursements by \$59,384. This amount includes the \$73,112 reclassified from Finding 6, reduced by \$13,728 which represents the cost of the immunizations

provided students. The \$13,728 was already deducted from the direct program costs. Since the immunizations revenues are included in the offsetting income, the Finding excludes the matching cost. The District does not object to this correction.

OTHER MATTERS

Management Representation Letter

The District will not be providing the requested management representation letter since it could be construed as a waiver of future appeal rights.

Public Records Request

The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings in effect and applicable during the claiming period to Finding 5 (indirect cost rate calculation standards).

Government Code Section 6253, subdivision c, requires the state agency that is the subject of the request, within ten days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in possession of the agency and promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, the agency must state the estimated date and time when the records will be made available.

Sincerely,



William H. Duncan IV, President
Sierra Joint Community College District

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